Fiscal Note

Fiscal Services Division

SF 2065 – Employee Stock Ownership Plan Tax Exemption (LSB 5250SV)
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Fiscal Note Version – New

Description

Senate File 2065 creates a State income tax exemption for capital gains earned from the sale of employer securities to a qualified Iowa employee stock ownership plan (ESOP). To qualify for the income tax exemption, upon completion of the sale the ESOP must own at least 30.0% of the outstanding employer securities issued by the company. The income tax exemption applies retroactively to January 1, 2012.

Senate File 2065 also appropriates $1.0 million from the General Fund for FY 2013 to the Economic Development Authority to establish a loan program and provide technical, educational, and contractor assistance to help companies with the establishment of qualified ESOPs.

Assumptions

1. For tax year 2009, the Department of Revenue identified 203 individual income tax returns with long-term capital gains from the sale of a business and that sale did not qualify for the current Iowa business sale capital gains exemption. Based on the average capital gain reported in tax year 2009 for those instances, the Department estimates that for tax year 2012 the average capital gain reported will be $273,600 and the total qualified exempt income for those 203 returns will be $55.5 million.
2. It is not known what percentage of the $55.5 million long-term capital gains income identified above will be the result of an ESOP sale that would qualify as exempt income under the provisions of SF 2065. For this fiscal note, the percentage is assumed to be 20.0%.
3. The average marginal long-term capital gains rate for tax year 2009 was 6.38% and is assumed to be the same in future tax years.
4. There will be a minor impact in FY 2012 due to reduced withholding and estimate payments.
5. No provision in the estimate is made for additional qualified ESOP sales that might result from the proposed tax reduction.
6. Tax exemptions reduce not only the individual's State income tax, but also their local option income tax surcharge for schools. Statewide, the surtax yields 3.3% of net State individual income tax revenue.

Fiscal Impact

The capital gains exemption proposed in **SF 2065** will reduce individual income taxes owed to the State by qualified taxpayers by the estimated amounts in the following table:

Tax Reduction in Millions of Dollars	
Fiscal Year	Tax Reduction
FY 2012	$ -0.0
FY 2013	-0.7
FY 2014	-0.8
FY 2015	-0.8
FY 2016	-0.9

In addition to the tax reduction in the above table, the tax exemption will reduce income surtax liability by $30,000 per tax year.

The total impact for FY 2013 will be a net reduction to the General Fund of $1.7 million ($1.0 million appropriation and $700,000 decrease in revenue).

Source

Department of Revenue

/s/ Holly M. Lyons

February 6, 2012

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the correctional and minority impact statements were prepared pursuant to **Iowa Code section 2.56**. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.